

Central Intelligence Agency

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**DIRECTORATE OF INTELLIGENCE**

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**Yugoslavia: Status and Outlook**

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**Summary**

Yugoslavia in the next several years will face growing instability that will weaken leadership cohesion and effectiveness, lessen the confidence of Western creditors, and lead to some increased human rights violations. The greatest threat to stability is growing ethnic and political strife, particularly that caused by Serbian leader Slobodan Milosevic's drive to reinstate Serbian hegemony in the country with himself as the preeminent leader. The deteriorating economy is also exacerbating ethnic and regional tensions and increasing the prospects for widespread worker and consumer unrest. The third threat to stability is isolationist and secessionist tendencies in Slovenia, which in turn are fueled by Milosevic's aggressive tactics, hostility of the more orthodox southern regions to Slovenia's moves toward

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political pluralism, and increased demands by these poorer regions on Slovene economic resources. [REDACTED]

While these problems will provoke periodic crises, several factors working in favor of the country's unity and territorial integrity probably will remain stronger. These include a belief among most Yugoslav leaders and ethnic groups that no better alternative to the Yugoslav state exists. The Yugoslav people have demonstrated an ability to withstand economic hardship, poor leadership, and numerous other problems without resorting to massive violence, and the military appears willing and able to maintain order if necessary. Thus, the odds seem better than even that the country will hold together, keep its independence from Moscow and make limited headway on political liberalization, market-oriented economic reforms, and such other US interests as counterterrorism and technology transfer. [REDACTED]

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Nonetheless, the strength of conflicting forces at work in Yugoslavia makes several other scenarios, all less favorable to US interests, possible, if less probable. These include the possibility that Milosevic gains significantly greater national power, growing ethnic and labor unrest prompts a nationwide military crackdown by federal leaders, and the lesser probability that Moscow reverses policy and significantly steps up pressure to strengthen Communist party rule and Belgrade's ties to the East Bloc. The likelihood of one or more of these outcomes occurring would rise if Milosevic gains support in several key regions, Slovenia moves more quickly to separatism or a multiparty system, the economy deteriorates even more rapidly, or Gorbachev is replaced by a more orthodox leader. [REDACTED]

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## DISCUSSION

### Threats to Stability and Unity

Yugoslavia is facing the greatest test of its stability and unity since its break with Moscow in 1948. Chances are that it will hold together and evolve in ways that are positive for US interests. However, it will probably face periodic crises in the next few years that will distract national leaders and slow or temporarily reverse some of these positive developments, including greater protection of human rights and implementation of economic reform. [REDACTED]

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The greatest threat to stability is growing ethnic and political strife among several of the country's regions and

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[redacted]

nationality groups.\* Potentially the most explosive is the drive by Serbian leader Slobodan Milosevic to exploit Serbian nationalism to reinstate Serbian hegemony in the country with himself as the preeminent leader. Over the past year, pro-Milosevic forces have expanded Serbia's influence in the federation by replacing the governments of Serbia's Vojvodina and Kosovo Provinces with more subservient leaderships and by taking advantage of the changeover in the Republic of Montenegro's leadership to strengthen pro-Serbian interests there. Most other regions and ethnic groups fear Serbian domination and recall the instability and repression that accompanied it between the two world wars. Milosevic's policies already have provoked two rounds of major ethnic Albanian demonstrations in Kosovo, resulting in military intervention and a state of virtual martial law. They have also significantly sharpened tensions between Serbia and the more liberal, Westward-looking northern republics of Slovenia and Croatia. [redacted]

Milosevic probably will consolidate his gains but will fail to 25X1  
upset the system of regional checks-and-balances that, for all its flaws, has helped hold the country together. A group of other regions--most notably Slovenia, Croatia, and Bosnia--with support from military leaders probably will constrain him. Nonetheless, they lack the unity, moral authority, and resolve to prevent Milosevic from repeatedly challenging the existing order with political confrontations and new mass demonstrations by his followers. [redacted]

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The second greatest threat to stability is the deteriorating economy, which is exacerbating ethnic and regional tensions and increasing the prospects for widespread worker and consumer unrest. Strikes and other labor disorders have grown increasingly large, well-organized, and targeted at government rather than merely enterprise policies. Popular discontent over economic mismanagement and declining living standards helped bring down the government of Premier Mikulic last December. Serbia's Milosevic also capitalized on labor unrest in Serbia to rally the public behind his nationalist agenda, and he attempted to exploit it in the Republic of Montenegro to oust its largely anti-Milosevic government. [redacted]

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Economic unrest probably will not evolve into a nationwide anti-regime movement, as in Poland, mainly because the country's ethnic groups have conflicting interests and are unlikely to cooperate adequately to overturn the system. However, disgruntled

\* Yugoslavia is a federal state composed of six republics--Serbia, Croatia, Slovenia, Bosnia-Herzegovina, Macedonia, and Montenegro--and two autonomous provinces (Kosovo and Vojvodina) within the Republic of Serbia. These republics have considerable authority over their internal affairs, and agreement among them is usually needed to adopt and implement national-level policies. [redacted]

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workers probably will increase pressure on political leaders, particularly in the poorer south, to go slow--or backtrack--on implementing painful austerity measures needed to improve efficiency. [REDACTED]

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The third threat to stability is isolationist and secessionist tendencies in Slovenia, which in turn are fueled by Milosevic's aggressive tactics, hostility of the more orthodox southern regions to Slovenia's moves toward political pluralism, and increased demands by these poorer regions on Slovene economic resources. Slovenia almost certainly will remain in the federation, and its leaders have shown their ability to balance between conflicting pressures from Belgrade and their own public. Nonetheless, leaders of burgeoning independent political groups may grow increasingly defiant. In the worst case, Belgrade would order in the military if it concluded that Slovene leaders were unable or unwilling to control serious mass demonstrations aimed at secession. [REDACTED]

While these ethnic and economic tensions will pose further challenges to Yugoslavia's stability over the next several years, factors working in favor of the country's unity and territorial integrity probably will remain stronger. These include:

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- o A belief among most Yugoslav leaders and ethnic groups that there are no better alternatives to the Yugoslav state;

- o The will and ability of the military to step in to maintain order, most likely at the behest of civilian authorities but if necessary on its own;

- o The remarkable ability of Yugoslavs to withstand economic hardship, poor leadership, and numerous other problems without resorting to organized violence. [REDACTED]

Even so, the country will continue to suffer periodic crises due to:

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- o Economic strains caused by both the current inefficient economic system and the major reforms needed to overhaul it.

- o Weak central leadership that both allows each region great autonomy and hampers an effective dampening of inter-regional conflicts and implementation of needed economic measures.

- o The lack of a clearly perceived foreign threat that in the past was provided by the Soviet Union; most Yugoslav regional leaders today see less danger in Gorbachev's USSR, allowing them to more freely pursue parochial, divisive interests. [REDACTED]

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### Some Progress on Political Liberalization and Human Rights

Yugoslavia in recent years has made significant progress toward political liberalization and protection of human rights and probably will continue to do so, with a few notable exceptions, if the threats to stability stay contained. The League of Communists of Yugoslavia (the Communist party) has lost considerable influence over the political system and public life; the role of such non-party bodies as the Assembly, cabinet, and State Presidency has grown; within the party, pluralism and regionalism have flourished; an almost Western-like press has developed in many regions; independent non-Communist political groups have sprung up, especially in Slovenia; and most regions have eased implementation of some laws against various political activities. [REDACTED]

The main reasons for this progress have been the erosion of central authority and discipline provided by Tito; the passing of the World War II partisan generation and the rise of younger, more pragmatic leaders; the growing influence of West European culture and political ideas; and to some extent the easing of Soviet pressures for ideological conformity since Gorbachev took power. [REDACTED]

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This positive trend, however, has been marred by two key developments:

- o Growing infringements on the human rights of ethnic Albanians in Kosovo Province and the Republic of Macedonia. In these regions, ethnic Serbs and Macedonians, respectively, fear that Albanians--with their high birthrate--are increasingly threatening their control and influence. In Kosovo, especially since the recent imposition of a state of quasi-martial law, Albanians have suffered abridgments of freedom of assembly, speech, and self-determination unmatched among the country's other ethnic groups. Infringements on Albanian rights in Macedonia are even more blatant and include destruction of property and cultural and religious restrictions.

- o The establishment of an authoritarian--if, thus far, highly popular--regime in Serbia under Milosevic. Milosevic has subverted the once-liberal Serbian press, initiated smear campaigns to remove opponents, and subjugated most Serbian political institutions to his personal control. [REDACTED]

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If, as we expect, Milosevic's influence remains limited largely to Serbia and its two autonomous provinces, we believe that national institutions and the other republics will continue to liberalize and improve their human rights performance. Prospects are good in the next several years for the development of even more

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genuine political pluralism in Slovenia. We also expect the promulgation of a revised national Constitution that gives further scope to non-Communist political groups and institutions. At the same time, the human rights of ethnic Albanians will probably suffer further infringements, and authoritarianism will continue in Serbia so long as Milosevic is in control. [redacted]

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### **Economic Reform and Debt Repayment**

Belgrade faces economic challenges in trying to reverse a decade of economic decline. The economy now suffers an annual inflation rate of 1,000 percent, declining living standards, roughly 15 percent unemployment, and widening disparities in wealth and economic development between the relatively prosperous northern republics and poorer southern regions. Burdened with a \$20 billion foreign debt, Yugoslavia has been kept solvent since the early 1980s only through a series of debt reschedulings and new credit packages with Western creditors and the IMF. Serious unrest over economic issues has been forestalled largely by the access of many Yugoslavs to a relatively large grey market, an inflow of hard currency earnings from guestworkers abroad, and a drawdown in personal savings. [redacted]

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Under pressure from the IMF and Western creditors, Belgrade in May 1988 launched its most ambitious economic reform effort to date. The program calls for broader introduction of market measures and dismantling of much of the subsidies and benefits provided by the country's traditional system of "workers' self-management socialism." Belgrade was required to implement the reforms to activate a new one-year IMF standby program and clear the way for other creditor debt relief and financing. [redacted]

Implementation of reform measures thus far has been slow despite broad proclamations of official commitment to reform--market measures have been endorsed by the LCY, State Presidency, Federal Assembly, and governments of the six constituent republics. The public, however, is in no mood for further belt-tightening. Through widespread strikes and consumer protests, it forced the government to temper some restraints on wages and public expenditures, in part leading to a suspension of the IMF standby program late last year. Nonetheless, the government has pressed ahead and, despite lengthy delays and reported compromises, has passed a series of constitutional amendments and economic legislation supporting reforms. [redacted]

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Yugoslav economic performance last year, however, demonstrates the difficulties the country faces in trying to improve its external balance of payments while moving its highly distorted economy to a more market orientation. Real devaluations of the dinar and market-determined foreign exchange rates--IMF policy prescriptions--helped Yugoslavia halve its hard currency trade deficit, achieve a record current account surplus and boost foreign

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exchange reserves to an all-time high. These improvements, however, occurred at a cost of record inflation and declining industrial output. Higher unemployment, falling consumption, and widening income disparities were in part the prices to be paid for carrying out measures advocated by Western creditors--decontrolling prices, raising interest rates above the rate of inflation, reducing import restraints, and abolishing wage controls. [redacted]

Despite the dislocations from reforms, the new government of Premier Ante Markovic probably will push economic change more vigorously than past Yugoslav governments and make limited progress toward a more market-oriented economy. Belgrade will continue steps to lessen administrative controls (for example, in trade and foreign exchange) and is likely to implement liberalizing measures that impose little or less direct austerity on the populace--wider private sector activity, broader foreign investment rights, a more independent banking system, creation of capital markets, enhanced individual incentives, and changes in accounting and tax laws. Reforms will be most evident in the more developed north. [redacted]

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We believe, however, that the Markovic government will be unable and unwilling to undertake, or at least sustain, a program of broader systemic change needed for economic recovery. Attempts to do so will meet stiff resistance from workers and republics that would bear the heaviest costs, eventually forcing the government to backslide on major reforms.

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- o Markovic faces the same formidable obstacles to legislating and implementing reforms that previous regimes have encountered--an entrenched bureaucracy, parochial regional interests, and a public opposed to austerity measures.

- o No Yugoslav government, despite its rhetoric, is prepared to risk serious instability that is likely to result from significantly opening up the economy and letting the market fully determine prices, wages, interest rates, investment, and firm viability. In particular no regime will tolerate the massive closing of inefficient plants, sharp curtailments of wage growth and rise in unemployment. [redacted]

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Belgrade's piecemeal, stop-and-go approach to reform is likely to continue the cyclical pattern of economic growth that has typified Yugoslavia for nearly two decades. Improvements in external accounts resulting from austerity and falling production will be followed by surges in output and consumption that produce rising debt. Growth will remain uneven, with the more developed northern regions faring far better than the poorer, debt-ridden south. [redacted]

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[REDACTED]

In the absence of a sustained economic recovery, Yugoslavia will remain dependent on Western financial assistance. The policies of Western creditors--banks, governments, and multilateral financial institutions--thus will be important factors influencing reform. Belgrade, however, will try to limit Western influence during and following debt relief negotiations. It is likely to resist demands for detailed reform measures with specific timetables and provisions enabling creditors to closely monitor Belgrade's adherence. Belgrade probably believes that the IMF and Western creditors, as under past standby programs, will allow some backsliding in the face of unrest even after a new agreement is reached. In addition, Yugoslavia probably believes that its immediate negotiating position has been bolstered by last year's record balance-of-payments surplus and foreign exchange reserves, as well as lesser debt rescheduling requirements in the near term.

[REDACTED]

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#### **Keeping Independent of Moscow**

Yugoslavia in the next several years almost certainly will maintain its independence from the Soviets. It will continue to pursue a strong relationship with the United States and with Western Europe, with which it has increasingly close economic, cultural, political, and other ties. It will also assume chairmanship of the Nonaligned Movement this fall for the coming three years. Nonetheless, Belgrade will work to improve ties to the USSR, which, under Gorbachev have reached their warmest level in decades.

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Moscow, for its part, almost certainly has given up any expectations of drawing Belgrade back into the Bloc, but it probably hopes improved relations will slow Yugoslavia's political and economic drift toward the West. Gorbachev thus far has been willing to make dramatic gestures--such as his forthright admission of Soviet responsibility for the rift in 1948--in order to move the relationship forward. His domestic reform program, endorsement of the traditional Yugoslav doctrine of "separate roads to socialism," and "new thinking" in international affairs, moreover, have brought many Soviet policies more into line with longstanding Yugoslav views.

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As for internal Yugoslav policies, Moscow believes its security interests are best served by a stable, united, socialist Yugoslavia and almost certainly will continue to give support, in the media and official bilateral talks, to federal leaders' efforts to maintain control and contain unrest. The Kremlin, which has used force to quell ethnic disturbances in some of its own constituent republics, has even viewed some repressive measures sympathetically; for instance, it gave favorable public treatment to the quasi-martial law imposed earlier this year in Kosovo. However, the Soviets will continue to be careful to avoid the appearance of meddling, despite their concern about the erosion of

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Communist party control and threats to Yugoslav stability. Moscow, moreover, almost certainly would not seek a "special relationship" with any ethnic group or leader. The Soviets would, nonetheless, probably try to take advantage of any strains in US-Yugoslav relations over human rights to increase their own influence in Belgrade. [redacted]

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On the economic front, bilateral ties will continue to be strained over Yugoslavia's \$2 billion trade surplus--the only major irritant between the two countries--but Moscow is unlikely to make significant economic concessions, such as increased oil and raw materials deliveries, to help reduce it. At the same time, the Soviets will encourage the Yugoslavs to implement their economic reform program in the hopes that a less troubled economy would lessen the chances of instability. [redacted]

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#### **Some Movement on Other US Interests**

Belgrade probably will continue to make limited progress on other US interests such as counterterrorism and control of technology transfer so long as it believes the West is prepared to condition its support to some degree on Yugoslav performance in these areas. On terrorism, Belgrade has shown some responsiveness to US demarches terrorism since the mid-1980s by:

- o Distancing itself somewhat from ties with radical Palestinian terrorists and groups.
- o Expelling Fatah security official Hawari after repeated US demarches.
- o Apparently reducing North Korean official presence because of its displeasure over P'yongyang's misuse of Yugoslav territory in the bombing of a South Korean airliner in November 1987.

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### Alternative Scenarios

While chances are about two in three that Yugoslavia will hold together, move ahead with limited political and economic liberalization, maintain its independence from Moscow, and demonstrate more responsiveness to Western interests, several alternative scenarios are possible given the forces at work. In descending order of probability, they are:

**Milosevic Gains Much Greater Power.** Milosevic could gain significantly greater national power if he gains more support in several regions--such as Bosnia, Macedonia, and Croatia--than now seems likely. Given the chance, he probably would set up an authoritarian, centralized, Serb-dominated regime that would seriously damage US interests in stability, liberalization, and human rights. Milosevic's positions on foreign policy and economic reform are less clear, but relations with Moscow may warm somewhat, especially if US-Yugoslav ties cooled over human rights issues. The two anti-Milosevic republics of Slovenia and Croatia might also feel compelled to accept a power-sharing deal with Serbia, granting Milosevic a primus inter pares position in return for promises of continued substantial autonomy. [REDACTED]

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**Nationwide Crackdown.** Countrywide instability--spawned by tensions caused by Milosevic, growing labor unrest, or accelerated moves by Slovenia toward separatism or a real multiparty system--could provoke a military crackdown by federal leaders. This would entail widespread abuses of human rights and at least a temporary rollback in political liberalization. Again, Moscow might gain somewhat increased influence if US-Yugoslav relations soured. [REDACTED]

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**significant Soviet Pressure.** The replacement of Gorbachev with a more orthodox Soviet leader--or a toughening of Soviet policies toward Eastern Europe following major unrest or sharpened East-West tensions--could lead to increased Soviet pressures on Belgrade to strengthen Communist party control and improve ties to the East Bloc. As in past decades, Yugoslav leaders would respond to such a move by suppressing their differences at least temporarily and showing unity in support of Yugoslav independence. Although Moscow sees a stable Yugoslavia as in its own best interest, if the country were already seriously fragmenting, Soviet pressures might accelerate the process. [REDACTED]

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**Fragmentation.** There is only a remote chance that the growing turmoil would lead to the country's disintegration in the next few years. Preconditions would be continued economic decline, the breakup of the Army along ethnic lines, and ethnic civil war within Bosnia or Croatia or a serious effort by the anti-Milosevic northern republics to secede. A de facto breakup could occur if the northern republics elected to go it alone financially and discontinued their bailout of the poorer south--by refusing to meet their financial obligations to the federal government or not honoring financial instruments (checks, promissory notes) of the south. Disintegration, however, under most other circumstances would more likely be messy and violent than a clean cleavage between the more Western-oriented northern regions and Balkan south, especially as Bosnia and Croatia have large ethnic Serb minorities. If the country were to split apart, Moscow would try to gain influence in whatever entities emerged and might be able to gain increased influence in the southern regions. In the worst case, prolonged civil strife could tempt Albania and possibly Bulgaria to meddle, increasing frictions in the Balkans and perhaps damaging East-West relations. [REDACTED]

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